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PARM, PREL, MT
SUBJECT: IRISL'S UNINSURED FLEET AND EVASIVE ACTIONS
NECESSITATE DENIAL OF PORT ENTRY WORLDWIDE

REF A) LONDON 002351
B) STATE 069339
C) STATE 094723
D) STATE 104496
E) STATE 108151
F) HAMILTON 00014
G) STATE 125339
H) STATE 1760
I) STATE 52348
J) STATE 121818
K) STATE 115243
L) STATE 90303

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M) STATE 7877
N) SINGAPORE 00083
O) UNSCR 1737 SANCTIONS COMMITTEE IMPLEMENTATION
ASSISTANCE NOTICE- 24 JULY 2009
P) UNSCR 1737 SANCTIONS COMMITTEE IMPLEMENTATION
ASSISTANCE NOTICE- 20 JANUARY 2010

[¶1.](#) (U) This is an action request. Please see paragraph [¶6.](#)

SUMMARY/BACKGROUND

[¶2.](#) (SBU) On October 12, 2009, the UK government banned its companies from doing business with the Islamic Republic of Iran Shipping Lines (IRISL), Iran's shipping line of choice for transporting proliferation-related items (REF A). As a result of the UK action, IRISL lost access to UK-based Protection and Indemnity (P&I) clubs, from which it had obtained liability insurance coverage. IRISL subsequently obtained substandard insurance from the Bermuda-based South of England Protection and Indemnity Association (SEPIA). The Government of Bermuda quickly took action to mirror that of the UK and on January 15, 2010, Bermuda banned its firms from doing business with IRISL.

[¶3.](#) (SBU) Because this sequence of events has resulted in IRISL's inability to maintain appropriate liability insurance coverage, ports around the world should consider denying IRISL entry. IRISL could choose to self-insure or to seek coverage from the Islamic P&I Club, which is based in the Queshm Free Zone in Iran, but ports may find such insurance coverage insufficient. Recent news reports also indicate that control of IRISL ships has been moved to a new company, Hafiz Darya Shipping Lines (HDS Lines), and Iran could attempt to obtain insurance for its vessels under that name as well. Insurance companies should be cautious of IRISL's

attempts to acquire coverage, including through HDS Lines or any other related entities, and maritime authorities should deny port entry for any Iranian vessels that lack sufficient insurance coverage.

¶4. (SBU) We have approached the international community numerous times regarding IRISL's proliferation-related behavior. In June 2008, we asked nations to fully implement the provisions of UNSCR 1803, which call for inspections of IRISL vessels and cargo suspected of containing prohibited items (REF B, C). We also notified our partners of the U.S. designation of IRISL and its subsidiaries for sanctions under Executive Order 13382 on September 10, 2008 (REF D), publicized the importance of the UK's decision to ban UK business with IRISL in October 2009 (REF A, E), and urged insurance companies to cease insurance coverage of IRISL vessels (REF G). Finally, we have approached individual countries on an appropriate basis when IRISL-related issues have arisen in their jurisdictions (REF H-N). Since January 2009, IRISL has also been involved in three publicly exposed transfers of conventional arms in violation of UNSCR 1747 by chartering vessels from other companies and transferring the material via IRISL cargo containers (REF O, P).

¶5. (SBU) Bermuda's ban provides us with another opportunity to highlight the risks of doing business with IRISL and the international community's efforts to protect themselves from those risks, and encourage all

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states to take similar decisive action to prevent their firms and territories from being used by IRISL for proliferation-related purposes.

ACTION REQUEST

¶6. (SBU) Washington instructs Posts to deliver the nonpaper in paragraph 7 and pursue the following objectives with appropriate host government officials in relevant foreign affairs, finance, trade, transportation, and maritime ministries. Post should also work with host governments to ensure that port authorities and insurance firms in each host country receive this message.

-- Note that IRISL may not have adequate or reliable liability insurance coverage and emphasize the risks inherent in allowing vessels without sufficient coverage to enter ports in host countries.

-- Request that host countries take steps to deny IRISL entry into their ports.

-- Note that IRISL is continuing to engage in deceptive practices to disguise its connection to its ships by operating them under a new name, Hafiz Darya Shipping Lines (HDS Lines), and urge host countries to deny port entry and insurance coverage to these ships as well.

-- Urge countries to take the steps necessary to discourage their companies from providing chartering services or moving IRISL containers due to the risks posed by events such as IRISL's three violations of UNSCR 1747 since January 2009.

POINT FOR EMBASSIES ABU DHABI, ALGIERS, ANKARA, ATHENS, BAKU, BEIJING, BERLIN, BRUSSELS, CAIRO, CANBERRA, ISLAMABAD, KUALA LUMPUR, LONDON, MADRID, NEW DELHI, NICOSIA, OSLO, PARIS, RIYADH, ROME, SEOUL, SINGAPORE, STOCKHOLM, TIRANA, TOKYO, VALLETTA, TRIPOLI AND AIT TAIPEI ONLY (REF B):

-- We appreciate the steps you have taken in response to previous conversations we have had regarding IRISL's involvement in proliferation-related activities on behalf of the Government of Iran, and we hope this new information on IRISL's lack of adequate insurance will help you evaluate the enormous risks posed by allowing IRISL vessels entry to your ports.

POINT FOR EMBASSIES COPENHAGEN, LUXEMBOURG, OSLO, STOCKHOLM, THE HAGUE, TOKYO, AND CONSULATE HAMILTON (REF C):

-- We previously requested that P&I clubs in your countries refrain from providing insurance to IRISL, and we appreciate the cooperation that we have received on this issue. We urge you to advise P&I firms in your jurisdiction to refuse to provide coverage to HDS Lines or any related entities, just as they have with IRISL.

POINT FOR SINGAPORE ONLY:

-- Acting Assistant Secretary Van Diepen raised IRISL's insurance status during the recent U.S.-Singapore Counterproliferation Dialogue (REF N). We note that the list of acceptable P&I clubs in your jurisdiction, according to a circular issued by the Maritime Port Authority in November of 2008, does not allow for coverage by SEPIA or Iranian insurance providers. Given IRISL's questionable insurance status, we urge you to carefully scrutinize the financial responsibility of IRISL vessels and deny their entry to your port if any doubt exists about their insurance status.

17. (U) Begin unclassified nonpaper on IRISL.

IRISL

-- The Islamic Republic of Shipping Lines (IRISL) has long been a concern to the United States and the international community due to its use by the Government of Iran to transport items of proliferation concern in violation of UN Security Council Resolutions 1737, 1747, and 1803. The U.S. designated IRISL for sanctions under

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-- As a result of IRISL's conduct, other governments have also taken actions which have degraded IRISL's access to adequate insurance coverage.

IRISL LOSES INSURANCE COVERAGE

-- On October 12, 2009, the United Kingdom banned British companies from doing business with IRISL and Iran's Bank Mellat. The ban against IRISL was implemented due to the services that the shipping line provides to Iran's Ministry of Defense and Armed Forces Logistics (MODAFL), which facilitates the transport of cargo for Iran's nuclear and ballistic missile programs.

-- As a result of the ban, the two UK-based Protection and Indemnity (P&I) clubs that provided insurance to IRISL vessels ceased their coverage, and effectively froze IRISL out of coverage from the other members of the 13-member International Group of P&I Clubs. The International Group insures 90 percent of the world's gross tonnage and is the gold standard for worldwide P&I insurance.

-- In November 2009, IRISL obtained coverage from South of England Protection and Indemnity Association (SEPIA). Although it is registered in Hamilton, Bermuda, SEPIA is

managed by a Lichtenstein company that subcontracts its day-to-day activities to offices in Zurich and Brighton, UK. This corporate structure means that while SEPIA does business in the UK, it is not subject to the UK ban.

-- SEPIA is considered by the maritime industry to be the insurer of last resort for older and less seaworthy ships rejected by the International Group and other top-tier fixed premium P&I insurers. According to reliable P&I market reports, SEPIA has the capacity to cover only \$250,000 in claims with its own reserves, which would cover the bare minimum of P&I claims. Anything in excess would be covered by its reinsurers, which may not be in a position to cover IRISL-related liabilities due to existing sanctions against IRISL.

-- On January 15, 2010, the Government of Bermuda took action to prohibit Bermudian firms from doing business with IRISL and Bank Mellat. As a result, SEPIA was required to cease the provision of insurance coverage for IRISL vessels. Bermuda's decision also forced Gard of Norway, the world's second largest P&I club, to withdraw its long-standing hull coverage of IRISL ships.

CONSEQUENCES OF THIS SITUATION

-- IRISL has effectively lost legitimate insurance coverage as a result of these actions. A shipping line that operates an uninsured fleet of over 100 container, bulk carrier, and general cargo ships that sail globally is unheard-of in the maritime industry and is unacceptable from a regulatory standpoint. IRISL would be unable to satisfy the insurance requirements established under the International Convention on the Civil Liability for Bunker Oil Pollution Damage, as well as other national laws in force.

-- Vessels with insufficient or unreliable P&I insurance are a serious risk for ports operating in your jurisdiction. P&I coverage ensures that the costs of any oil spill or other environmental damage caused by a vessel will be borne by the P&I club, not the host country. P&I coverage also includes responsibility for salvaging a ship that has run aground, as well as reimbursement to cargo owners or their insurers for negligent damage to the cargo on board a vessel. Finally, the loss of life and personal injury to crewmembers, as well as any collision risks, are covered by P&I insurance. In the event that an IRISL vessel with insufficient P&I coverage is involved in an incident in your port, your government or port authority may be responsible for any damages that IRISL's insurance does not cover.

-- In 2009, IRISL ships were involved in three major accidents that killed seven people and caused tens of

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millions of dollars in damage to the environment and its ships. In November, the 23,720 dead weight tonnage (dwt) IRISL ship Zoorik wrecked and broke in two in the Yangtze River, creating over 400 tons of oily waste from spilled bunker fuel. In April, the 17,928 dwt IRISL ship Danoosh collided with a ship and sank as it crossed the Singapore Strait. In December, the 38,000 dwt IRISL ship Pantea collided with a Chinese fishing vessel, causing the death of the crew members aboard the fishing vessel. This high accident rate shows the likelihood of an incident involving IRISL in your waters, and the potential severity of the damage that IRISL ships can cause.

IRISL'S EVASIVE ACTIONS

-- Recent news reports have stated that a new entity, Hafiz Darya Shipping Lines (HDS Lines), now controls the container shipping services formerly operated by IRISL.

-- We believe this is an attempt by IRISL to change its name and ownership structure to avoid international scrutiny, and that the Government of Iran could use HDS Lines as its new shipping line of choice to transport items of proliferation concern.

-- While the ownership structure may appear to have been changed, the Government of Iran will likely still maintain a great deal of control of the activities of HDS Lines.

-- IRISL has used deceptive practices in the past to conceal its identity and circumvent UN Security Council resolutions to transport proliferation-related goods for the Government of Iran. This behavior has included the renaming and reflagging of its ships, as well as the falsification of shipping documents.

-- In addition, IRISL was implicated in three violations of UNSCR 1747 since January 2009 by transferring arms related material out of Iran. In two of these incidents IRISL chartered vessels from other companies; in the third incident, IRISL transferred the prohibited material via IRISL cargo containers.

-- IRISL's lack of proper insurance coverage and exploitation of shipping services poses a risk to those companies maintaining their business with IRISL.

IRISL'S NEXT STEPS

-- IRISL must replace its P&I coverage to continue to operate internationally.

-- In an attempt to replace SEPIA's P&I coverage, IRISL has a number of options, but three options appear most likely. First, it could self-insure its vessels using coverage provided by the Government of Iran. Second, it could join smaller or lesser-known P&I clubs, such as the Islamic P&I Club, which is headquartered in the Queshm Free Zone, Iran, and has branches in Dubai and London. Finally, it could approach the international P&I sector under the new HDS Lines brand and reapply for coverage.

-- Neither of the first two options provides an acceptable level of coverage for a shipping line of IRISL's size. The Government of Iran's continuous disregard for its international responsibilities, and its troubled economic situation, makes it unlikely that a port state could rely on Iranian Government-provided P&I coverage in case of an emergency. Given that the Islamic P&I Club has traditionally focused on vessels of up to 20,000 dwt, and IRISL's fleet includes vessels of up to 76,000 dwt, it is unlikely that the Islamic Club could provide sufficient P&I coverage in the event of an accident.

-- The third option, an attempt by HDS Lines to apply for P&I coverage, would be just as unacceptable, because we believe that the Government of Iran will make HDS Lines its new shipping line of choice to transport proliferation-related items. Insurance companies, including P&I clubs, should apply the same evaluation of risk to HDS Lines as they have to IRISL, and they should

ACTION NEEDED TO MITIGATE PORT RISK

-- Given IRISL's continued evasive actions, and its current lack of legitimate insurance coverage for its vessels, it is vital that your government take action to protect your port(s) from the risk posed by IRISL and HDS Lines.

-- We urge your government to take steps under your national authorities to ensure IRISL and HDS ships are denied entry to your ports. Preventing these vessels from entering your port(s) is the most effective way to protect your country and your port(s) from the risk of proliferation-related activities or the risk of an accident that IRISL/HDS' insurance is unable to cover.

-- We also recommend that you notify your insurance industry, including any domestic P&I clubs, of the change of control of IRISL vessels to HDS Lines. This notification will ensure that your insurance companies are able to identify former IRISL vessels and companies, and take the necessary steps to prevent the provision of insurance coverage to these vessels.

End unclassified nonpaper on IRISL.

ADDITIONAL INFORMATION

-- Documents relating to the UK ban on business with IRISL and Bank Mellat can be found on HM Treasury's website at http://www.hm-treasury.gov.uk/fin_crime_policy.htm .

-- Documents relating to Bermuda's ban on business with IRISL and Bank Mellat can be found on the Government of Bermuda's website at:

http://www.gov.bm/portal/server..pt/text/privacy_statement.html/gateway/PTARGS_0_2_12224_201_651_43/http%3B/ptpublisher.gov.bm%3B7087/publishedcontent/publisher/ministry_of_legislative_affairs/additional_document/iran_order__a_n_interpretive_note_for_fiforms_4.pdf.

-- Information on IRISL's designation for proliferation concerns under E.O. 13382 can be found in the press release issued by the Treasury Department on September 10, 2008, which can be found at WWW.TREASURY.GOV/PRESS/RELEASES/HP1130.HTM.

REPORTING DEADLINE

18. (U) Post should report results within seven business days of receipt of this cable. Please slug replies for ISN, T, TREASURY, and NEA. Please use the caption SIPDIS in all replies.

POINT OF CONTACT

19. (U) Washington point of contact for follow-up information is Kevin McGeehan, ISN/CPI, (202) 647-5408, and Jennifer Chalmers, ISN/CPI, (202) 647-9715.

110. (U) Department thanks Posts for their assistance.

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CLINTON